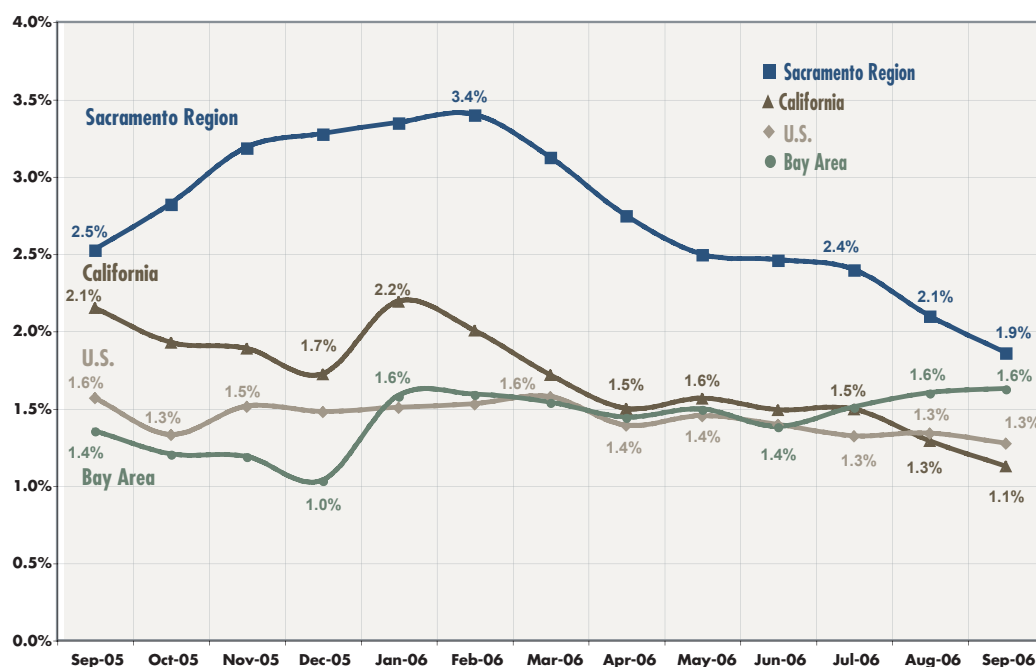


Q3 2006

Quarterly

ECONOMIC REPORT

Sacramento Region's Job Growth Declining, But is Still Among the Strongest Regions in the State



Job Growth

Sacramento Region, Bay Area, California, and United States

Sacramento Regional Research Institute, October 2006

Data Sources: California Employment Development Department and US Bureau of Labor Statistics

Note: Job growth reflects year-over-year Nonfarm employment growth rates.

An economic report on the six-county Sacramento Region provided by the Sacramento Regional Research Institute (SRRRI), a joint venture of SACTO and California State University, Sacramento

Job growth in the six-county Sacramento Region (El Dorado, Placer, Sacramento, Sutter, Yolo, and Yuba Counties) has been declining over the past two quarters primarily as a result of slowdowns in the Construction and Financial Activities sectors. The Region posted 1.9 percent job growth in September 2006, reflecting a year-over-year gain of just over 17,000 jobs. While still relatively healthy and above the statewide and national averages, this growth rate is considerably lower than the recent peak in February 2006 when the Region posted

3.4 percent growth and also marks the lowest rate seen since late 2004. Excluding the housing-related effects (Construction and Real Estate) results in slightly higher employment growth within Sacramento's economy (around 2.1 percent between September 2005 and 2006), but the recent declining job growth pattern is still present due to other sectors experiencing slowing employment growth rates such as Manufacturing and Professional & Business Services.

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Job Growth *cont.*

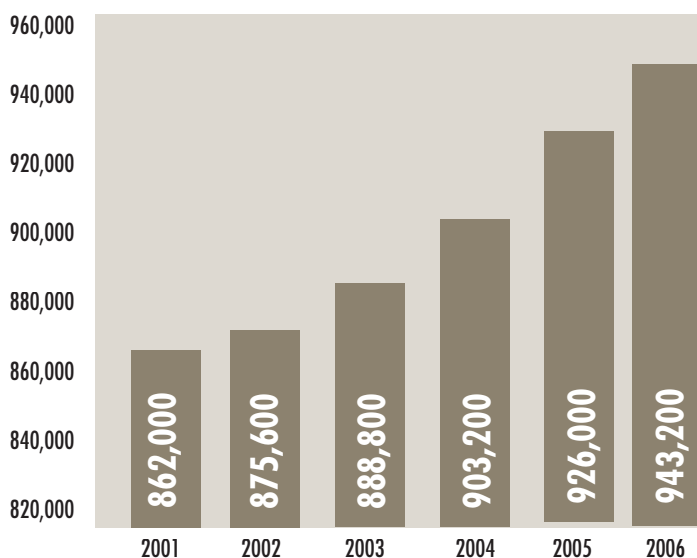
The state has also seen decreases in year-over-year employment growth rates, declining from a recent peak of 2.2 percent growth at the beginning of the year to 1.1 percent in September 2006. While the state posted job growth above the national average over the past year, with slower growth over the last quarter, it fell below this benchmark in September 2006.

The nation's job growth has remained flat over the past year, averaging around 1.4 percent. However, over the

last quarter, job growth dropped-off slightly, falling below the short-term average. Between September 2005 and 2006, the nation posted 1.3 percent employment growth with a gain of 1.7 million jobs.

The Bay Area's (Alameda, Contra Costa, Marin, San Benito, San Mateo, San Francisco, and Santa Clara Counties) economic recovery has reached a new milestone. Over the last quarter, its job growth has surpassed the national average and has either been around the same level or above the statewide average. In the 12 months ending September 2006, the Bay Area experienced 1.6 percent job growth with an increase of over 46,000 jobs. This reflects some of the highest employment growth it has seen in a number of years.

Among its neighboring economies and the state's largest economic regions, the Sacramento Region posted the third highest employment growth rate in September 2006. Solano, Sacramento's neighbor to the west, saw some of the highest job growth in the state at 2.9 percent, while the Inland Empire (Riverside and San Bernardino Counties) also experienced relatively strong growth of 2.2 percent. These were the only two regions to post job growth above 2 percent. The Bay Area's strong recovery has allowed it to place above other major regions in the state and just behind the Sacramento Region. Only Los Angeles (Orange, Los Angeles, and Ventura Counties) and Fresno (Fresno and Madera Counties) saw employment growth rates below the statewide and national averages.



Sacramento Region Employment

September 2001–2006

Sacramento Regional Research Institute, October 2006

Data Source: California Employment Development Department

Note: Totals reflect Nonfarm employment.

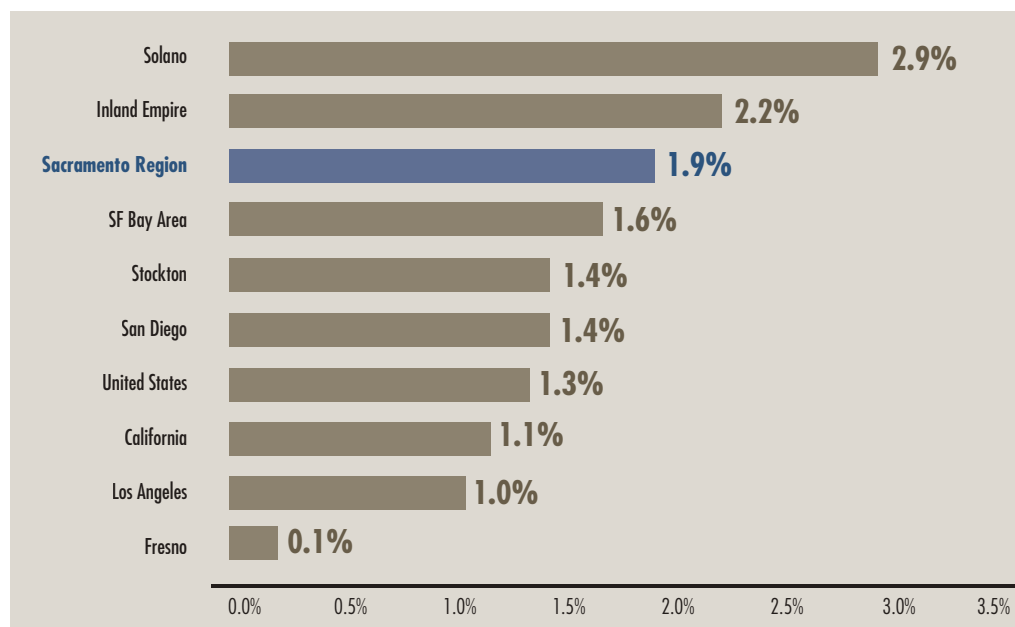
Employment Growth Rates

Selected Regions, September 2005–2006

Sacramento Regional Research Institute, October 2006

Data Sources: California Employment Development Department and US Bureau of Labor Statistics

Note: Growth rates reflect Nonfarm employment.



Leisure & Hospitality and Professional & Business Services Sectors Added the Most Jobs Among the Major Sectors Throughout the State, Including the Sacramento Region

The Sacramento Region's Leisure & Hospitality sector added the most jobs among its major sectors between September 2005 and 2006, accounting for about one-third of the net job gain. Following Leisure & Hospitality, the Professional & Business Services and Government sectors saw the greatest job gains over the past 12 months. The top three sectors made up nearly three-quarters of the Region's net job gains with a total increase of 12,700 jobs. The Region's Construction sector added a negligible amount of jobs in the past 12 months while at this same time last year it was among the top three sectors. Financial Activities (which includes Finance, Insurance, and Real Estate activities) posted negative year-over-year job growth for the third straight month, joining Information as the only sectors with job losses in the Sacramento Region.

The state's Leisure & Hospitality and Professional & Business Services sectors were also at the top of the list of job gains and were joined by Educational & Health Services. Combined, these three sectors added 107,000 jobs and accounted for about 64 percent of the state's net job gains. For the past two months, the state has experienced positive (although fairly limited) employment gains in the

Manufacturing sector breaking the continuous pattern of year-over-year job losses it has seen for a number of years. Only the state's Information sector posted a job decrease in the past 12 months.

Employment Gains and Losses

Components of Sacramento Region and Bay Area

	Sept 2005-2006	
Area	Absolute	Rate
Sacramento Region	17,200	1.9%
Sacramento-Arden Arcade-Roseville MSA	16,200	1.8%
Yuba City MSA	1,000	2.5%
Bay Area	46,400	1.6%
Oakland-Fremont-Hayward Div.	23,000	2.2%
San Francisco-San Mateo-Redwood City Div.	15,000	1.6%
San Jose-Sunnyvale-Santa Clara MSA	8,400	1.0%

Sacramento Regional Research Institute, October 2006

Data Source: California Employment Development Department

Note: Gains and losses reflect Nonfarm employment.

Leisure & Hospitality and Professional & Business Services also topped the list of major sector job gains in the Bay Area, but unlike the Sacramento Region and the state overall, the Construction sector placed among the top three with a 12-month increase of 8,400 jobs. These three sectors accounted for 25,100 (a little more than half) of the net 46,400 job gains in the Bay Area. The Bay Area's recovery has led to positive year-over-year growth in all of its major sectors with the exception of Information.

Nearly all (94 percent) of the net jobs added in the Sacramento Region over the past 12 months were within the Sacramento-Arden Arcade-Roseville Metropolitan Statistical Area (MSA—El Dorado, Placer, Sacramento, and Yolo Counties). The MSA posted 1.8 percent job growth in September 2006, driven mainly by the Leisure & Hospitality and Professional & Business Services sectors. The Yuba City MSA (Sutter and Yuba Counties) has seen a tremendous decline in job growth since the beginning of the year, dropping from 7.9 percent growth in January to 2.5 percent in September. This decline is mainly due to a significant slowdown in the Construction sector. All in all, the Yuba City MSA has still been making a positive contribution to the Region's economy, accounting for about 6 percent of the net employment increase in the past 12 months. The MSA's Manufacturing sector has been the driving force behind the recent gains.

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Major Sector Employment Gains and Losses

Sacramento Region, Bay Area and California

	September 2005-2006		
Sector	Sacramento Region	California	Bay Area
Total Nonfarm	17,200	167,100	46,400
Private Sector	13,900	138,600	41,600
Public Sector	3,300	28,500	4,800
Leisure & Hospitality	5,200	39,600	7,100
Prof. & Business Svcs.	4,200	38,000	9,600
Government	3,300	28,500	4,800
Trade, Trans., & Util.	1,900	10,100	5,200
Edu. & Health Svcs.	1,900	29,400	5,100
Manufacturing	900	2,800	2,600
Other Services	300	8,200	700
Construction	100	1,200	8,400
Nat. Res. & Mining	0	1000	100
Financial Activities	-200	12,100	4,200
Information	-400	-3,800	-1,400

Sacramento Regional Research Institute, October 2006

Data Source: California Employment Development Department

Sector Gains and Losses *cont.*

The Bay Area's economic recovery and relatively healthy job growth over the last quarter has been heavily supported by the East Bay. Posting 2.2 percent job growth in September 2006, the Oakland-Fremont-Hayward Metropolitan Division (Alameda and Contra Costa Counties) accounted for nearly half of the net job gains in the Bay Area over the past year. The Construction sector, including both residential and non-residential activities, has been leading the job gains in this Metropolitan Division. The San Francisco-San Mateo-Redwood City Metropolitan Division (Marin, San Francisco, and San

Mateo Counties) contributed a little less than one-third of the Bay Area's net job increase between September 2005 and 2006. The Metropolitan Division's 1.6 percent job growth has been supported, in large part, by gains in the Professional & Business Services sector. The Silicon Valley, San Jose-Sunnyvale-Santa Clara MSA (San Benito and Santa Clara Counties) has made substantial strides since the economic down-turn, growing by 1 percent and accounting for over 18 percent of the Bay Area's net employment increase in the last 12 months. All of the MSA's major sectors either grew or showed no gain over the past year (including Information) with Leisure & Hospitality adding the most jobs.

Sacramento Region's Employment Opportunities Continue to Outpace Employable Residents

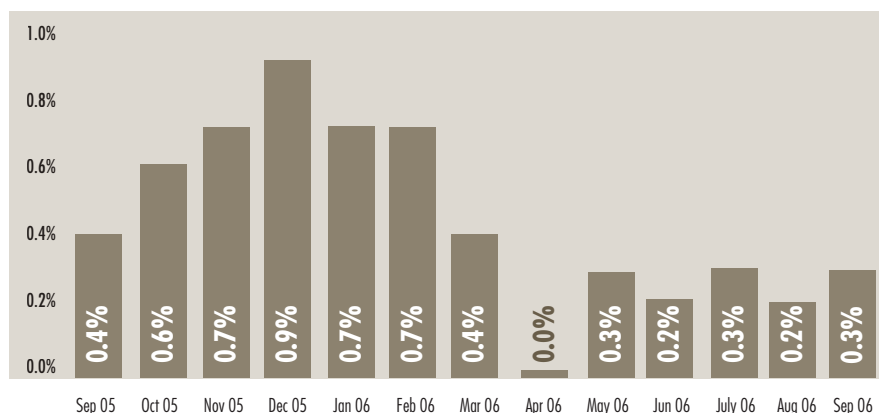
Economic theory suggests that as long as the year-over-year growth rate in the number of persons employed is larger than the growth rate in the civilian labor force, a region is in good economic health. For nearly every month in the past year, the Sacramento Region has displayed healthy economic conditions with employment opportunities available to the Region's residents growing

faster than the number of employable people. The healthiest conditions over the past year were posted at the end of 2005 with a divergence in year-over-year growth rates just under 1.0 percentage point in December. Since this peak, the Region's economic health has declined with minimal positive growth rate divergence posted over the last two quarters.

Sacramento Region Economic Health

Sacramento Regional Research Institute,
October 2006

Data Source: California Employment Development Department
Note: Bars reflect the percentage point difference between the year-over-year growth rates in the employed portion of the labor force and the total labor force.



Sacramento Region's Median Home Sale Price Continued to Show Year-over-Year Increases Leading to Declines in Housing Affordability

During the second quarter of 2006, the median home sale price in the Sacramento Region (\$391,000) was below the statewide average and one of the lowest among neighboring and major regions in the state. Only the Inland Empire and Fresno saw home sale prices below the Sacramento Region. The Bay Area remained at the top

of the list with a median home sale price of \$645,000, which was considerably higher than any other region. Home prices in every selected region and the state overall posted well above the national median of \$250,000. Home sale prices continued to increase on a year-over-year basis for every selected region plus the state and

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Home Sales *cont.*

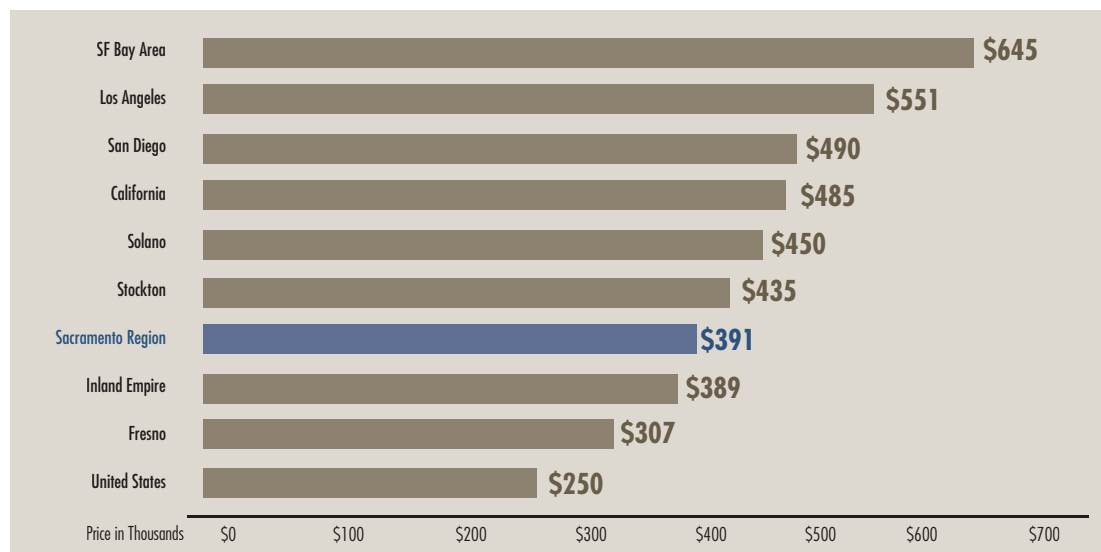
the nation. The Sacramento Region posted the slowest growth since the second quarter of 2005 (1.4 percent) while most other inland areas saw growth rates above 10 percent. Only the Sacramento Region and San Diego experienced a decline in home sale prices since the last quarter (Sacramento prices were 1.2 percent lower than in the first quarter of 2006) while prices were stagnant at the national level.

Nearly 8 percent of the homes sold in the Sacramento Region during the second quarter of 2006 were affordable to families earning a median income. The Region remained more affordable than the statewide average, but fell in the middle of the list of major and

neighboring regions. Every selected region in the state continued to post Housing Opportunity Index (HOI) values significantly below the national average of close to 41 percent. Moreover, compared to the same quarter of the last year, the selected regions and the state overall are still becoming less affordable for families earning a median income—all areas posted a decline in HOI values. The Sacramento Region experienced a decline of 1.4 percentage points. Only Solano and Los Angeles saw affordability remain steady over the last quarter with every other selected region showing lower HOI values in the second quarter of 2006 compared to the first quarter. HOI in the Sacramento Region was 0.4 percentage points lower than in the first quarter.

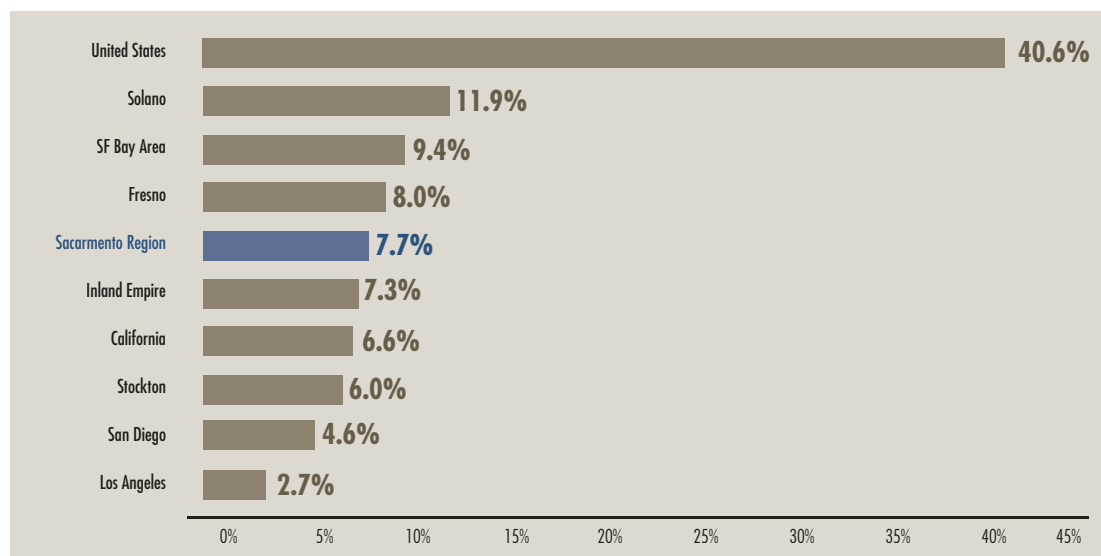
Home Sale Price

Selected Regions,
Second Quarter 2006
Sacramento Regional Research
Institute, October 2006
Data Source: National
Association of Home
Builders-Wells Fargo
Housing Opportunity Index



Housing Opportunity Index

Selected Regions,
Second Quarter 2006
Sacramento Regional
Research Institute,
October 2006
Data Source: National
Association of Home
Builders-Wells Fargo Housing
Opportunity Index
Note: Housing Opportunity
Index reflects share of homes
sold that would have been
affordable to a family earning
the median income.



SACTO Prospect Activity Update

In SACTO's pursuit of high-value jobs for the region, two clusters have emerged that show great promise for future growth in the Sacramento Region—renewable energy and life sciences/healthcare-related companies. SACTO is investing considerable effort into these two areas, and these sectors are recognizing that the Sacramento Region has several competitive advantages in terms of workforce, access to the Capital, world-class academic institutions, investment opportunities and a high quality of life.

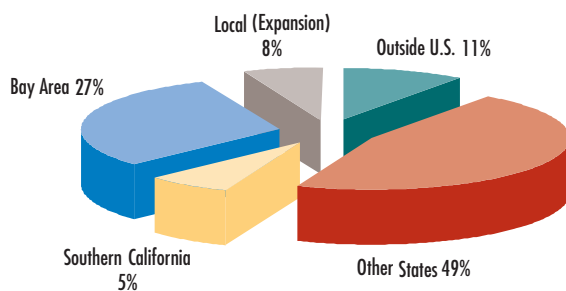
The number of national and international renewable energy companies considering the Sacramento Region for their site selection needs continues to grow. These companies include photovoltaic and fuel cell firms, wind power manufacturers, and biofuel companies. The Sacramento Region is becoming well known as a hub for alternative energy solutions, and SACTO is capitalizing on that recognition.

SACTO has also seen increased activity from the life sciences/healthcare sectors over the last quarter from companies ranging

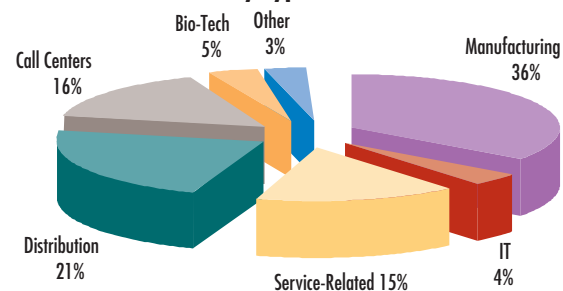
from medical treatment facilities to manufacturing operations. Companies are attracted to the region by our educated workforce, growing population, proximity to the Bay Area biotech cluster, strong research universities and excellent transportation access. The region has been short-listed for several exciting projects and we look forward to moving these projects through the "pipeline."

Manufacturing and distribution continues to comprise a large share of SACTO's prospects, with each representing 36% and 21%, respectively. Many of the renewable energy and life science opportunities are classified in these categories, due to the nature of the facility. Office operations, which includes professional services, information technology (IT) and call centers currently represents 35% of prospects. SACTO is also working with a handful of headquarters opportunities which fall under the office operations category. The remaining 8% of projects are in biotechnology or "other."

Prospect Origin Breakdown



Facility Type Breakdown



Quarterly ECONOMIC REPORT

A P U B L I C A T I O N B R O U G H T T O Y O U B Y S A C T O A N D
T H E S A C R A M E N T O R E G I O N A L R E S E A R C H I N S T I T U T E

SACTO  The Inside Track

ABOUT SACTO

SACTO is the region's leading facilitator of economic development bringing together the organizations, information and resources in the pursuit of jobs, talent and investment needed to ensure regional prosperity and global competitiveness.

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 **SRRI**

ABOUT SRRI

SRRI provides a full range of objective economic and demographic research services to government entities, businesses and non-profit organizations.

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